

- We appreciate the opportunity to return to this Committee to expound upon the information that we have previously provided regarding the Department's revenue estimates.
- My name is D.J. Bettencourt, I serve as the Deputy Commissioner of the New Hampshire Insurance Department. Joining me is my colleague, Amy Duhaime, who leads the department's tax division.
- Prior to this presentation, we spoke with Chairwoman Sanborn to better understand what information the committee wanted from us and as a result of that conversation, we produced the spreadsheets before you.
- Amy can discuss the details, but I wanted to provide you with a broad picture of what we are observing in our insurance markets and how those trends and dynamics informed our estimates.
- First, I appreciate that some of this might already be familiar to you given the department's presentation a few weeks ago, but two key details of the Insurance Premium Tax are worth highlighting again:
- First, we are trying to make projections for approximately \$ 7 billion worth of written premium spread over 1,300 companies across all lines of business in NH. I know this committee appreciates that making predictions with the unique dynamics playing out in each market is challenging. Fortunately, this department has always met its projection.
- Second, that the Insurance Premium Tax is paid due to the state no later than March 15th of each year on a calendar year basis.
- The carriers are required to pay their estimated tax liability in advance as a percent of the prior year's total written premium and then reconcile any difference at the end of the tax period.
- As you can appreciate, the nature of paying that liability on a pre-collection basis introduces uncertainty. This was especially so during the pandemic and remains so as society continues to return to normal.

- And appreciate, when the number is off it represents a double hit. Once from the previous year and again in the current year.
- Further, in four of the last six years, we saw a decline from the previous year's aggregated estimate. As you will hear, there is uncertainty in our markets.
- As a former member of this committee, I know how difficult the conversation is when you don't meet projections. So, the lesson learned is to be responsibly cautious.
- We are about three weeks away from the deadline for companies to pay their IPT liability. Therefore, in terms of 2023, we will provide updated data with actual values when the true picture is revealed.
- As we look at 2024 and 2025, there are broad trends that we believe support our projections:
- **Healthcare Market**: Two major issues:
  - First, it is important to remember that the revenue collected from the MCO's for the Medicaid Expansion program is segregated to pay a portion of the state's 10% non-federal share.
  - Second, as you are aware, the state is going to begin the process of redetermining the Medicaid eligibility for 101 thousand people. Of that, HHS is projecting that 59 thousand individuals will be ineligible.
  - It is unclear where those individuals will get coverage. We know that some portion of them will migrate to the individual market, but we don't know how many or the impact on premiums.
  - Bringing further uncertainty, the federal government is going to extend a special enrollment period for those individuals for approximately 18

months. Therefore, not only do we not know where they will get coverage, but we do not know when they will get coverage.

- Finally, while I am proud to say that we still have the lowest premiums in New England and most of the northeast region, premiums in the individual and small group market did tick up a bit this year.
- On the surface, that might lead you to believe that IPT revenue would correspond, but it does not necessarily. When premiums raise, people and businesses make different decisions regarding their coverage. For example, they will shop around or pare down coverage. All of that impacts the IPT and therefore our projections.
- **Property & Casualty**: In the P&C world, there is considerable discussion whether our markets are hardening. I think its useful to understand the characteristics of a hard versus soft market.
- All industries experience cycles of expansion and contraction, and this is particularly true of the insurance industry. Although no two cycles are the same, insurance cycles typically last from two to ten years and are marked by an expansion and a contraction of insurance availability.
- The characteristics of a soft market in the insurance industry include: lower insurance premiums, broader coverage, relaxed underwriting criteria, increased capacity (meaning carriers write more policies and higher limits), and increased competition among insurance carriers.
- On the other hand, the characteristics of a hard market include: higher premiums, more stringent underwriting, reduced capacity (meaning insurance carriers write fewer policies), and less competition.
- There seems to be a consensus that we are entering a hard market but based on what we are seeing in New Hampshire, we believe it will be more like a hybrid between a hard and soft market.

- We continue to see ample capacity in our markets, but rates are certainly increasing, and premiums are generally increasing as well. We are confident, however that rating meters are in place to provide adequate coverage for just about all consumers seeking a policy. However, globally there are challenges that are difficult for us to know how they will play out in New Hampshire.
- Personal lines auto: We know that personal lines auto insurance rates are increasing driven to a large extent by significant supply chain disruptions that caused replacement parts to become hard to get and very expensive.
- Rental car coverage also got expensive because cars were hard to come by and the length of time people needed them increased because of how long cars had to remain in the shop waiting for replacement parts.
- Those issues worked their way into rates. However, we are seeing some supply chain issues normalize and premiums will plateau. To what degree and how fast is uncertain. But we do know that the numbers will not continue to look as they do today as we go forward.
- Moreover, we do not fully understand at this time the impact those rising premiums had on consumer choices. Did they shop around their coverage to find a carrier that did not raise rates or had smaller increases? Did they skinny down coverage, perhaps removing non-liability coverage on older vehicles, which would reduce the rental reimbursement related to premium? Did they not bother to insure a second vehicle not regularly used? All of that impacts the market.
- Commercial lines: Commercial lines insurance is an interesting market that makes up approximately half of New Hampshire's P&C market. This includes products such as General Liability, Property Insurance, Commercial Auto Insurance, Professional Liability and Cyber Liability.
- We are not seeing the rate increases in these markets to the extent we are with personal lines products.

- This can be attributed to consumer decision making. Some businesses can skinny down the coverage. For example, reevaluating the number of company vehicles, increasing deductibles, or taking off certain coverages.
- Additionally, commercial lines products are more customizable, and credits can be applied to the policy to keep premiums stable.
- **Fees:** Another area where we saw an abnormality that we are confident will not continue is with our fees. During the pandemic, companies licensed all of their employees in New Hampshire, seemingly regardless of where they were in the country.
- We now have over 200 thousand licensed insurance professionals. That is one producer for every six Granite Staters. As life normalized post-pandemic, that trend is simply not going to continue. It is unsustainable.
- Producer licenses are good for two years. We are coming up on re-licensing for those Pandemic period licensees. We expect that number to right-size and therefore anticipate fee revenue to decrease.
- **Life:** The last item to highlight is life insurance, which we are projecting to decrease because rightly or wrongly, individuals view this coverage as a luxury item.
- As such, it is not an item that people buy when the economy slows or when people are struggling with inflation. Given that, our projection is based on how we believe those dynamics will play out.
- Also, during the pandemic Life Insurance boomed because people were preparing for the worst, but that mentality has eased and therefore so has the revenue.
- Those are the highlights. I appreciate everyone's patience on this tour of our insurance markets. Amy and I are happy to take your questions.

## NHID Revenue Projections

This spreadsheet was designed to give a closer look at how we've come up with our revenue projections for FY2023 and subsequent years.

Starting with the top of the spreadsheet, you will notice a breakout of our growth factors. These growth factors are based on the tax base which are the premiums written from almost 1,300 licensed companies.

The middle section of the spreadsheet is the breakout of those premiums between P&C and Life, lines of business. These lines are taxed at 1.25%.

These lines of business include the follow premiums:

- ▶ Gross direct premiums including renewal premiums, less dividends, and less returned premium.
- ▶ Policy fees, and other fees.
- ▶ Policy dividends applied in payment for life insurance (additional paid-up insurance).

Tax-exempt premiums are not included, such as those premiums for insurance for Political Subdivisions (counties, towns, school districts), as well as premiums collected on Federal Crop Insurance.

Next is the premium breakout for the Medical and A&H lines of business which are taxed at 2% of premiums.

Premium taxes are collected on:

Medicare Supplementary Policies (Medigap coverage), as well as Medicaid premiums (broken out between the standard Medicaid and the Medicaid expansion premiums).

Health premiums not taxable are for the Federal Employee Health Benefit Program, Medicare Advantage Plans, as well as premiums for Medicare Part D coverage.

The last section on the spreadsheet is a breakdown of the revenue projections. There are details for the FY2022 Actual results, and then outlined are the projections for FY2023, 2024, and 2025.

The premium tax revenue accounts for approximately 80% of the agency revenue, whereas the fees make up approximately 20% of our revenue.

Of the 80% of revenue coming from Premium Taxes, approximately 40% can be attributed to the P&C & Life LOB, whereas the other 60% can be attributed to Health LOB.

Variables impacting NHID revenues include:

- Taxable premiums written
- Retaliatory premium tax rates
- Retaliatory fees and assessments
- Premium tax credits
- Amended returns

- Re-domestication of licensed companies
- Producers, adjusters, entities licensing volume
- Examination Billing
- Enforcement Penalties

## **TAX CREDITS**

**400-A:34-a Credit for Business Enterprise Tax.** – The tax imposed under RSA 77-E shall be allowed as a credit against the taxes due under this chapter and shall be deemed to be taxes paid pursuant to this chapter for the purposes of RSA 77-A:5, III. Any insurer subject to taxation under this chapter shall first apply such credits as provided in this section, and then pursuant to RSA 77-A:5, X. The taxes paid pursuant to RSA 77-E by an individual member of a unitary business within the meaning of RSA 77-A:1, XIV shall be allowed as a credit against any other individual member's liability under this chapter, provided that such other member is also subject to the tax imposed by this chapter. To the extent the credit for taxes paid pursuant to RSA 77-E exceeds the taxes imposed under this chapter, such excess shall be deemed to be taxes imposed under RSA 77-E and shall be allowed as a credit against the taxes due under RSA 77-A as provided by RSA 77-A:5, X.

### **408-B:13 Credits for Assessments Paid.** – Life & Health Guaranty Fund

I. A member insurer may offset against its tax liability under RSA 400-A any assessment described in RSA 408-B:9, II(b) for the life insurance and annuity account, and for the health account for guaranteeing the performance of contractual obligations of an impaired or insolvent insurer in regard to disability income coverages only, to the extent of 20 percent of the amount of the assessment for each of the 5 calendar years following the year in which the assessment was paid. If a member insurer ceases doing business, all uncredited assessments described above may be credited against its tax liability under RSA 400-A for the year it ceases doing business.

II. Any sums acquired by refund from the association by member insurers, as stated in RSA 408-B:9, VI, and which were previously offset against taxes as described in paragraph I, shall be paid by these insurers to the state of New Hampshire in the manner required by the commissioner. The association shall notify the commissioner that refunds have been made.

### **162-L:10 New Investment Tax Credit.** – CDFA

I. An investment tax credit equal to 75 percent of the contribution made to the authority during the contributor's tax year shall be allowed against any of the following individually or in combination:

- (a) Taxes imposed by RSA 77-A.
- (b) Taxes imposed by RSA 400-A.
- (c) Taxes imposed by RSA 77-E.



# New Hampshire Insurance Department

## Revenue Estimates

February 28, 2023

Projections - In millions	FY 2022	FY 2023	FY 2024	FY 2025
	ACTUAL	PROJECTIONS	PROJECTIONS	PROJECTIONS
<b>PREMIUM WRITTEN</b>				
<b>Growth Factors</b>	CY 2021	CY 2022	CY 2023	CY 2024
Property & Casualty (all except A&H)		99.00	101.00	101.50
Life (except A&H)		95.00	99.00	100.00
Title		97.00	100.00	100.00
Risk Retention Groups		99.00	101.00	103.00
Accident & Health		100.00	102.00	102.00
Medical		100.00	102.00	103.00
Medicaid Managed Care Organizations		100.00	99.00	99.00

PREMIUM WRITTEN - Lines of Business at 1.25%	FY 2022	FY 2023	FY 2024	FY 2025
	ACTUAL	PROJECTIONS	PROJECTIONS	PROJECTIONS
Property & Casualty (all except A&H)	\$ 2,651.93	\$ 2,625.41	\$ 2,651.67	\$ 2,691.44
Life (except A&H)	712.89	677.24	670.47	670.47
Title	75.46	73.19	73.19	73.19
Risk Retention Groups	45.58	45.13	45.58	46.95
Taxable Finance & Service Charges	14.46	13.00	13.50	14.00
Multi Peril Crop - Tax-exempt	(0.36)	(0.40)	(0.40)	(0.40)
<b>Net Taxable Premium Written - PC &amp; Life at 1.25%</b>	<b>\$ 3,499.96</b>	<b>\$ 3,433.57</b>	<b>\$ 3,454.01</b>	<b>\$ 3,495.65</b>

PREMIUM WRITTEN - Lines of Business at 2%				
Accident & Health on Life and P&C forms	\$ 917.84	\$ 917.84	\$ 936.20	\$ 954.92
Medical Net of tax-exempt (FEP, Part D, Medicare Advantage)	1,401.32	1,401.32	1,432.66	1,480.62
Medicaid Managed Care Organizations 'MCOs' (Standard)	694.67	694.67	687.72	680.84
Granite Advantage Health Plan (Medicaid Expansion)	510.31	510.31	505.20	500.16
<b>Net Taxable Premium Written - Medical and A&amp;H at 2%</b>	<b>\$ 3,524.14</b>	<b>\$ 3,524.14</b>	<b>\$ 3,561.78</b>	<b>\$ 3,616.54</b>

<b>Total Net Premiums Written ( PROJECTED TAX BASE)</b>	<b>\$ 7,024.10</b>	<b>\$ 6,957.71</b>	<b>\$ 7,015.79</b>	<b>\$ 7,112.19</b>
---	--------------------	--------------------	--------------------	--------------------

Unrestricted Revenue - In millions	FY 2022	FY 2023	FY 2024	FY 2025
	ACTUAL	PROJECTIONS	PROJECTIONS	PROJECTIONS
NH Premium Tax Liability	\$ 114.23	\$ 113.40	\$ 114.40	\$ 116.00
Retaliatory - Tax Rate	10.00	9.35	9.40	9.45
Retaliatory - Assessments & Fees	4.86	4.60	4.60	4.70
<b>Premium Tax Liability before Credits</b>	<b>\$ 129.09</b>	<b>\$ 127.35</b>	<b>\$ 128.40</b>	<b>\$ 130.15</b>
Business Enterprise Tax Credit Applied	(2.96)	(2.95)	(3.30)	(3.60)
Life & Health Guaranty Fund Class B Assessments	-	-	(0.10)	(0.10)
Community Development Finance Authority Credit	(0.11)	(0.10)	(0.10)	(0.20)
<b>Premium Tax Liability</b>	<b>\$ 126.02</b>	<b>\$ 124.30</b>	<b>\$ 124.90</b>	<b>\$ 126.25</b>
Prepayment Applied from Prior Year Estimate	(117.55)	(126.00)	(124.30)	(124.90)
True-up from Prior Year	\$ 8.47	\$ (1.70)	\$ 0.60	\$ 1.35
Prepayment for Preceding Year*	122.02	124.30	124.90	126.25
Transfer to Granite Advantage Trust Fund (DHHS)	(10.21)	(10.20)	(10.10)	(10.00)
<b>Subtotal - Premium Tax from Admitted Market</b>	<b>\$ 120.28</b>	<b>\$ 112.40</b>	<b>\$ 115.40</b>	<b>\$ 117.60</b>
Unlicensed Companies Premium Tax	6.24	4.60	4.60	4.90
<b>Premium Tax Revenue</b>	<b>\$ 126.52</b>	<b>\$ 117.00</b>	<b>\$ 120.00</b>	<b>\$ 122.50</b>
<b>Fees Revenue</b>	<b>\$ 28.41</b>	<b>\$ 22.00</b>	<b>\$ 19.00</b>	<b>\$ 19.50</b>
<b>Total Revenue Projection*</b>	<b>\$ 154.93</b>	<b>\$ 139.00</b>	<b>\$ 139.00</b>	<b>\$ 142.00</b>

\*FY2022 as reported in the Annual Comprehensive Financial Report. Prepayment adjusted for deferred revenue entry (modified accrual basis).